FOR PRIVATE CIRCULATION VOL. XVI ISSUE IV

EXIMIUS: EXPORT ADVANTAGE

December 2002

EXPORT-IMPORT BANK OF INDIA
Visit us at www.eximbankindia.com

A Quarterly Publication

In this issue

Current Trends in Global Economy: An Overview

The global economy has been witnessing a recovery in recent months, though there are doubts about its sustainability. Industrial production and trade has picked up, particularly in the first quarter of 2002. Recovery will continue, but estimated growth rate in the second half of 2002 and in 2003 is marginally lower than earlier expectations. Weak financial markets, depreciation of US Dollar, worsening financing conditions for the emerging economies are some factors leading to the scaled down global growth rate estimates. The positive factors include aggressive policy response after the events of September 11, 2001, decline in oil prices and a buoyant financial infrastructure worldwide in the face of external shocks.

According to the IMF's *World Economic Outlook (WEO) September 2002* issue, global GDP growth in 2002 is projected at 2.8%. Growth in the advanced economies is projected to register a subdued 1.7% in 2002, while Newly Industrialised Asian Economies and developing countries are projected to show improvements in GDP growth from 0.8% and 3.9% in 2001, respectively, to 4.7% and 4.2% in 2002. In the case of CIS countries, GDP growth is projected at a lower rate of 4.6% in 2002 as compared with 6.3% during the previous year.

In *North America*, the *US* economic activity recovered in late 2001 and early 2002, driven primarily by an improved fiscal position, credibility of the monetary policy management and suitable policy response to the recession. It was aided by productivity increases and higher real wages which led to robust consumer spending. Reflecting these developments, real GDP growth is estimated to increase to 2.2% for 2002 from 0.3% in 2001. Weakening business and consumer confidence, depreciation of the dollar against the euro, and a deterioration of financial market conditions have, however, led to questions about the sustainability of the recovery and a scaling down of earlier forecasts for *2003*. *Canada's* economy recovered faster than other G-7 countries, mainly reflecting inventory correction, strong consumer spending, and a pick-up in investment. Growth rate was 1.5% in 2001 and is expected to improve to 3.4% in 2002.

In *Japan*, the deterioration of the economic situation seems to have bottomed out, with GDP growth projected to decline by 0.5% in 2002, as compared with a decline of 0.3% in 2001, followed by a modest rebound of 1.1% in 2003. From early 2002 onwards, activity has been picking up, as exports increased because of stronger external demand. Consumer demand and investment is projected to recover in 2003. On the positive side, the introduction of the new economic framework in 2001, which includes banking reforms, fiscal consolidation and corporate restructuring and deregulation, is expected to address some of Japan's structural impediments, and thus improve Japan's economic outlook over the medium-term.

The *Euro Area* has been characterised with a slower recovery as compared to North America and emerging economies of Asia. This could be attributed primarily to the weakening domestic demand growth. Real GDP growth is projected to slow down to 0.9% in 2002 from 1.5% in 2001. Among the largest economies, the weakness in *Germany*, where growth is expected to be 0.5% in 2002, is particularly marked. Real estate prices have fallen and a restructuring of the banking sector has led to slower credit growth. In Germany as well as in *Italy*, domestic demand has been weak, while in *France*, labour market reforms have improved the economic conditions. However, growth prospects remained generally stronger in some countries, notably in *Greece*, *Ireland* and *Spain*.

In the *United Kingdom*, higher household borrowing, increasing housing prices and firm labour markets have helped support private consumption. Economic growth thus rebounded in the second quarter of 2002. The economy has also been buoyed by strong demand for exports and the sterling being weaker against euro. Reflecting this trend, real GDP is expected to be 1.7% in 2002 and is projected to grow at 2.4% in 2003. In *Denmark*, *Norway* and *Sweden*, growth is steadily picking up and is expected to be around 1.5% in 2002, and 2-2.5% in 2003, supported by stronger private consumption and export market conditions.

The crisis in Argentina and its contagion effect, particularly in Uruguay and Paraguay, led to sharp contraction of output in *Latin America*. The underlying factors for the continued deterioration in economic conditions in this region as opposed to a turnaround in most other regions are many. These include high debt levels and external financing needs of the region, domestic political uncertainties and fragile banking systems. Real GDP growth for the region is expected to contract by 0.6% in 2002 before improving to 3.0% in 2003. Economic developments in Latin America have been dominated by the financial crisis in *Argentina*, where, with consumption and investment having registered sharp declines, very high unemployment levels, and a decline in exports due to the absence of trade finance, the GDP is expected to contract by as much as 16.0% in 2002. Reforms in fiscal and monetary structure, the independence of the central bank and improvements in the banking sector are required in Argentina to stabilise the economy in the medium term. In *Brazil*, the uncertainties in prospective policy framework in the context of the October presidential elections led to widening bond spreads and depreciation in the Real. GDP growth for Brazil is expected to be 1.5% in 2002, and improve to 3.0% in 2003. Risk perceptions remained high for other Latin American countries like *Venezuela*, *Ecuador and Peru* because of political uncertainties and policy weaknesses. Fiscal adjustment including revenue improvement and expenditure restraint is the fundamental policy requirement for reducing economic vulnerabilities in the region.

Outlook for the *Emerging Markets in Asia* has improved considerably as exports picked up due to the global recovery, especially in the high technology sector. Regional GDP growth is projected to be at 5.9% in 2002 and 6.1% in 2003. However the region remains dependent on external developments, particularly on the recovery of US and European economies and is vulnerable to oil price shocks. Among the four newly industrialised economies *(Hong Kong*, *Korea*, *Singapore and Taiwan*) and ASEAN-4 (*Indonesia*, *Malaysia*, *Philippines and Thailand*), Korea fared the best, supported by strong exports and consumer lending. Economic activity continued to hold up relatively well in *China*, where GDP growth of 7.5% is expected in 2002, and in South Asia including *India*. The more robust activity in these countries reflects the fact that they are less exposed to the fluctuations in global trade and activity as compared with other Asian economies.

The countries in *Central* and *Eastern Europe* and the *Baltics* also fared well, with growth rates expected to range between 2.5-4.5% in 2002 and to strengthen further in 2003. Generally stable macroeconomic policies and market-friendly business environment have helped support strong inflows of foreign direct investment (FDI), which is the major source of the region's external financing requirements. Falling inflation rates and robust wage growth have also encouraged domestic demand in most countries. Outlook for the region is influenced by its strong trade linkages with the European Union. However, in *Poland*, GDP growth remains weak, while *Czech Republic* was severely affected by recent floods, and *Turkey* remains vulnerable to further downturns in investor sentiments given its high domestic and external financing requirements.

The *CIS countries* have shown great resilience during the global downturn, and regional GDP growth is projected to be 4.6% and 4.9% in 2002 and 2003, respectively. Strong domestic demand in *Russia* and *Ukraine* supported the region's economic activities. However, growth in *Kazakhstan* is slowing down because of lower oil revenues. Inflation has continued to decline across the region, but remains at high levels in a few countries such as Russia, *Belarus*, *Tajikistan* and *Uzbekistan*. In Russia, the monetary expansion was due to the current account surplus and absence of full sterilization. In the other countries, it was primarily due to state interventions in the economy. While there is a regional current account surplus, large deficits persist in the low-income economies of the region.

Growth in *Africa* is projected to moderate from 3.5% in 2001 to 3.1% in 2002. This could be attributed to the interplay of several external and internal factors, especially the developments in commodity prices. Civil unrest, political instability and armed conflicts, along with natural disasters and weakness in cotton and coffee prices kept the economic activity at lower levels. Growth is expected to pick up to 4.2% in 2003 and the outlook depends on improvements in political stability and absence of natural disasters. *Nigeria*'s economy is expected to contract by 2.3% in 2002 because of lower oil production in accordance with OPEC quota. In *South Africa*, growth is expected to be 2.5% in 2002, and will pick up to 3% in 2003 because of higher gold prices and strong external demand. Regarding macroeconomic stability, many African

Table: Trends in Global Output and Trade

(% change)

		2000	2001	2002(P)	2003(P)
I.	World output (real GDP)	4.7	2.2	2.8	3.7
	Advanced economies	3.8	0.8	1.7	2.5
	United States	3.8	0.3	2.2	2.6
	Japan	2.4	-0.3	-0.5	1.1
	Euro Area	3.5	1.5	0.9	2.3
	Newly Industrialised Asian economies	8.5	0.8	4.7	4.9
	Hong Kong SAR	10.4	0.2	1.5	3.4
	Korea	9.3	3.0	6.3	5.9
	Singapore	10.3	-2.0	3.6	4.2
	Taiwan Province of China	5.9	-1.9	3.3	4.0
	Developing countries	*5.7*	*3.9*	*4.2*	*5.2*
	Africa	3.0	3.5	3.1	4.2
	Developing Asia	6.7	5.6	6.1	6.3
	China	8.0	7.3	7.5	7.2
	India	5.4	4.1	5.0	5.7
	Indonesia	4.8	3.3	3.5	4.5
	Malaysia	8.3	0.5	3.5	5.3
	Philippines	4.4	3.2	4.0	3.8
	Thailand	4.6	1.8	3.5	3.5
	Western Hemisphere	4.0	0.6	-0.6	3.0
	CIS countries and Mongolia	8.4	6.3	4.6	4.9
	Russia	9.0	5.0	4.4	4.9
II.	Global trade (volume growth)	12.6	-0.1	2.1	6.1

Note: P = Projections
Source: World Economic Outlook, September 2002, IMF

countries have made significant progress in important areas like governance (for example, *Mozambique*, *Senegal* and *Uganda*), and fiscal management including poverty reduction (*Burkina Faso*, Mozambique and *Mali*).

Reflecting recent oil markets developments, the economies in the *Middle East* are expected to register a lower growth rate of 3.5% in 2002, with a pickup in growth to 4.6% in 2003. In addition to lower oil prices, country-specific policy pressures and regional security crisis also led to the decline in activity. While the outlook for *Saudi Arabia* and *Kuwait* have weakened further because of oil quotas, growth in *Iran* is expected to continue at a relatively firm pace of 5.8% in 2002 because of a growth in non-oil activities. For the non-oil producing countries in the region, outlook is influenced by factors, which include increased regional security concerns, which have contributed to a downturn in tourism – of particular importance for *Egypt* and *Israel*. *Jordan* witnessed robust growth as a result of the authorities' firm commitment to macroeconomic stability and structural reforms.

Global Trade and Prices

Reflecting the downturn in global economic activity and weakening of demand, the *volume growth of global trade* contracted sharply, from 12.6% in 2000 to -0.1% in 2001, before improving to an estimated 2.1% in 2002. Global trade is projected to improve to 6.1% in 2003. For advanced economies, the volume growth of export is projected to register an increase of 1.2% in 2002 from a contraction of 1.1% in 2001, while for developing countries, export volume growth is expected to increase from 2.6% to 3.2% during the same period. The volume growth of imports is expected to show a similar trend. Import volume is projected to improve from -1.3% in 2001 to 1.7% in 2002 for the advanced economies, and from 1.6% to 3.8% for the developing economies.

Global trade prices are expected to increase during 2002, particularly for oil and non-fuel primary commodities. Oil prices, after registering a sharp contraction of 14.0% in 2001, are projected to increase by 0.5% in 2002, while for non-fuel primary commodities, prices are expected to increase by 4.2% in 2002, following a contraction of 5.4% in 2001. As regards manufactured goods, global prices are expected to increase by 2.6% in 2002 from a decline of 2.3% in 2001.

Business Opportunities Update: Upcoming Projects

Select opportunities for Indian exporters in upcoming projects around the world, funded by multilateral funding agencies such as World Bank (WB), Asian Development Bank (AsDB), African Development Bank (AfDB) and European Bank for Reconstruction and Development (EBRD) are given alongside.

Interested exporters need to contact the concerned Executing Agencies to pursue the business opportunities. Our Multilateral Funded Projects Overseas (MFPO) team at Centre One Building, World Trade Centre Complex, Mumbai would be glad to be of help, if you keep us advised. Please contact Ms. Geeta Pruthi on Tel: 22185272 Extn: 2301.

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Peru/ Vice Ministry of Construction and Water, Ministry of Housing, Av. 28 de Julio, No. 800, Lima 1. Contact: Cesar Tapia, Head, Rural Water Department, and Roxana Leon, Project Preparation Coordinator Tel: (51-1) 421-2102 (ext. 403) E-mail: rleon@pronap.org.pe	Natural Rural Water Supply and Sanitation Project/ The development objective of the National Rural Water Supply and Sanitation Project (PRONASAR) is to increase the sustainable use of new and rehabilitated water supply and sanitation facilities in rural areas and small towns while emphasizing improvement in hygienic practices and training in operation and maintenance.	World Bank US$ 50 mn
Nigeria/ Federal Ministry of Education (FMOE), National Project Coordination Unit (NPCU), Abuja, Nigeria Contact: NPCU Coordinator, Mrs. MO Olorunfunmi Tel: (234-9) 523-0089, 90 Fax: (234-9) 523-9741	Universal Basic Education Project/ The project will support the Government of Nigeria implement a program to achieve universal basic education (UBE), by increasing the capacity of states, and local governments to manage, and implement it effectively.	World Bank US$ 101 mn
Sri Lanka/ Government of Sri Lanka, Ministry of Finance, Treasury Bldg., Colombo 01, Sri Lanka Contact: Mr. Faiz Mohideen, Director General, Department of External Resources Tel: (94-1) 434-876 Fax: (94-1) 447-633	Renewable Energy for Rural Economic Development Project/ The project aims at improving the quality of rural life, by utilizing off-grid renewable energy technologies, to provide electricity in remote areas, and, in addition, promote private sector power generation from renewable energy resources for the main grid	World Bank US$ 75 mn
Lithuania/ Ms. E. Skuciene Mindaugo 12/14, 2600 Vilnius, Lithuania Tel: 370 52 69 2733	Corridor IX Track Renewal Project/ The proposed project involves the rehabilitation and improvement of the key railway infrastructure: track renewal materials (rails, sleepers complete with fastening systems, ballast and turnouts), earthworks and rehabilitation of the existing structures.	European Bank for Reconstruction and Development US$ 54 mn

Country/ Executing Agency	Project/ Brief Scope	Loan from Funding Agency
Kenya/ Ministry of Agriculture, Kilino House, PO Box 30028, Nairobi Tel: (254-2) 718-870 through 879 Fax: (254-2) 728-870 AfDB Contact: Mr. A.D. Mtegha, Director, Country Operations Tel: (225) 204-056	National Livestock Development Program/ The project will comprise the following (i) dairy production, processing and marketing; (ii) improved support to meat and egg production industries; (iii) improved support to non-conventional livestock production; (iv) strengthening of animal health; (v) support for capacity building; and (vi) project management and implementation.	African Development Bank US$ 18.8 mn
Ethiopia/ Ministry of Development and Economic Planning, Addis Ababa AfDB Contact: Mr. A.D. Mtegha, Director, Country Operations Tel: (225) 204-056	Emergency Recovery Project/ The project components are as follows: (a) the rehabilitation of households and community infrastructure, (b) HIV/AIDS prevention, care and support, (c) demining, and (d) reconstruction.	African Development Bank US$ 62.8mn
Sri Lanka/ National Water Supply and Drainage Board, Galle Road, Ratmalana Sri Lanka Contact: Mr. K.L.L. Premanath, Project Director Tel: 94-1-605349 Fax: 94-1-622753	Secondary Towns and Rural Community-Based Water Supply and Sanitation/ The overall goal of the project is to contribute to poverty alleviation efforts and to promote human development, by improving access to safe water and sanitation of poor population, thereby decreasing water borne diseases and reducing the amount of resources spent in these activities.	Asian Development Bank US$ 60 mn
Indonesia/ Directorate General of Financial Institutions, Jl. Dr. Wahidin No. 1 Building A 5th Floor, Jakarta 10710 Contact: Mr. Sri Bagus Guritno, Investment Officer Tel: (62-21) 3848305 Fax: (62-21) 3847437	Small and Medium Enterprise Export Development/ The project aims to reduce poverty by promoting economic growth and sustainable employment generation through the strengthening of the SME export sector.	Asian Development Bank US$ 85 mn

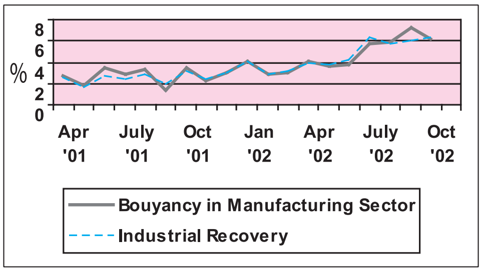
CONTRACT AWARDS

Select contracts secured by Indian companies during the quarter:

IRCON International Limited, New Delhi	Contract for Dhaka Urban Transport Project, secured in **Bangladesh**, funded by **World Bank.**
Tech Fab International, New Delhi	Contract for supply of drugs and medical supplies for Health Sector Development Project, secured in **Ethiopia**, funded by **World Bank.**
Larsen & Toubro Limited, Mumbai	Turnkey contract for gas plant and offshore pipeline for Songo Songo Gas Development and Power Generation Project, secured in **Tanzania**, funded by **World Bank.**
Ajanta Pharma Limited, Mumbai	Contract for supply of pharmaceuticals for Health Sector Rehabilitation and Development Project, secured in **East Timor**, funded by **World Bank.**
Punj Lloyd Ltd., New Delhi	Contract for construction of pipelines for Crude Oil Pipeline Project, secured in **Turkey**, funded by multilateral agencies, including **World Bank.**
Kalpataru Power Transmission Limited, Gandhinagar	Contract for supply of towers and accessories for Transmission, Distribution and Disaster Reconstruction Project, secured in **Vietnam**, funded by **World Bank.**
Shapoorji Pallonji & Co. Ltd., Mumbai and Larsen & Toubro Limited, Mumbai	Contract for construction of cyber towers at Ebene Cyber City, secured in **Mauritius**
RITES Ltd., New Delhi	Consultancy contract for Electrified Double Track Project, secured in **Malaysia.**
Larsen & Toubro Limited, Chennai	Turnkey contract for Transmission Line Project, secured in **UAE.**

Resurgence of Manufacturing Sector in India

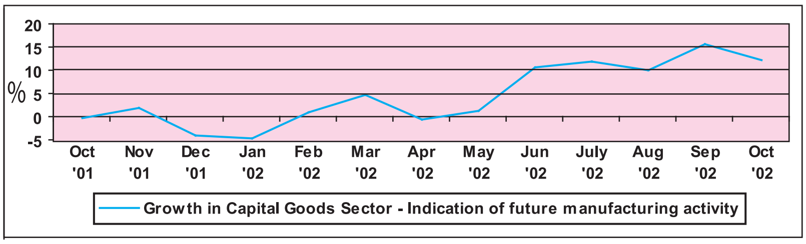
The quick estimates of the Index of Industrial Production (IIP) for the period April-October 2002, demonstrated the recovery of industrial growth with resurgence in manufacturing sector. Manufacturing sector, which accounts for nearly 80% weight in the IIP grew by 5.6% during April-October 2002, bringing up the overall IIP growth rate to 5.5% during this period. The growth trend in the manufacturing sector is significant and this could lead to an overall industrial revival, in the coming months also.



The trend showed that as many as 14 out of the 17 two-digit industry groups have shown positive growth during the period April-October 2002. The sectors are broadly classified into the following four categories:

- High growth performers (10% and above): food products (12.0%), beverages and tobacco (24.7%), textile products, including apparel (15.4%) and transport equipment & parts (12.8%).
- Moderate growth performers (5% to 10%): jute and other vegetable textiles (5.3%), basic chemical and chemical products (6.8%), basic metal and alloy industries (7.3%) and metal products and parts (6.8%).
- Low growth performers (below 5%): wool, silk and man-made fibres (3.6%), paper & paper products (4.7%), rubber & plastic products (4.1%), non-metallic mineral products (4.7%) and machinery (0.5%)

Under the use-based classification, the 9.3% growth in capital goods sector, achieved during April-October 2002, is an indicator for sustaining the growth in manufacturing sector and continued industrial recovery. The trend as indicated in the graphs corroborates sustaining the resurgence of manufacturing sector for the rest of the year also.



The resurgence in manufacturing sector can also be confirmed with the number of Industrial Entrepreneurs Memoranda (IEMs) filed with Secretariat for Industrial Assistance. During the period between January-July 2002, there were 701 IEMs filed, of which 177 belong to metallurgical industries, 145 belong to chemical and pharmaceutical industries and 330 belong to other manufacturing industries.

An indication of industrial recovery and resurgence in manufacturing sector can also be measured by the overall growth in the core sector. The infrastructure industries witnessed a growth of 6.1% in the first seven months of 2002-03. Besides, non-oil imports, which has a weight of 70% in total imports, achieved a growth rate of 9.78% during the period April- October 2002.

Credit extended by banks to commercial sector also confirms the positive outlook by the industrialists on the recovery of manufacturing activity. The outstanding balances of Banks' credit to commercial sector as of October 4, 2002 stood at Rs 841,603 crores, an increase of 11.3% over the same period last year.

Data on FMCG markets for October collated by AC Nielsen ORG-MARG shows positive growth, backed by an overall improvement across most product categories. The FMCG sales have recovered by 3.16% in October 2002, as compared to October 2001. Another study by ORG-MARG on the pharmaceutical sector reveals that the pharmaceuticals industry increased its cumulative market by 9%, during the period January-Sep tember 2002.

According to Society for Indian Automobile Manufacturers (SIAM), commercial vehicles segment posted sales growth of 32% during April-October 2002. The auto ancillary sector, which is dependent on the growth of automobiles sector, also performed well during this period. According to Indian Electrical & Electronics Manufacturers Association (IEEMA), the electrical and electronics industry has started reviving with increasing demand for transmission line towers, transformers, switchgears, voltage and miniature circuit breakers.

The half yearly estimates of Gross Domestic Product (GDP), released by Central Statistical Organisation (CSO) also shows that the manufacturing GDP has grown by 5.1% as against a growth rate of 2.6% witnessed during the same period of previous year. All these put together demonstrate the resurgence of manufacturing sector and industrial recovery in the days to come.

Forum of Asian ECAs

The 8th Annual Meeting of the Asian Export Credit Agencies (ECA) was held recently at Kuala Lumpur, Malaysia. Representatives of ECAs from India, Australia, China, Indonesia, Japan, Korea, Malaysia, Philippines, Thailand were represented. Bancomext (Mexico) attended the meeting as a special invitee. In addition, an observer was present from Asian Development Bank, Manila. The meeting was held to discuss ways foster a long-term relationship within the Asian ECAs Community, share experience and strengthen financial cooperation to promote intra-regional trade.

The initiative for holding annual meetings of Asian ECAs to exchange information and share ideas in a structured manner was originally taken by Exim Bank of India, which also hosted the first two meetings in India at Bangalore in February 1996 and at Mumbai in June 1996. Since then it has become an annual event, hosted by an ECA by rotation. The previous Annual Meetings following the first two were held in Tokyo (1997), Beijing (1998), Bali (1999), Bangkok (2000) and Korea (2001).

The meeting marked the culmination of discussions held at the Annual Meeting in Seoul, Korea in 2001, with the signing of a Multilateral L/C Confirmation Facility Agreement by participating Institutions (on voluntary basis). The Facility will be put to use through a bilateral agreement between two ECAs for a trade transaction between two companies in the two countries. The Agreement is aimed at augmenting the existing trade flows amongst countries in Asia & the Pacific. There is a growing perception that the Agreement would be most useful during times of crisis such as the Asian Financial Crisis of 1997 and a co-ordinated policy amongst member countries would play a role in controlling spread of financial turmoil and promoting regional stability.

Exim Bank extends US$ 5 million Credit Line to Seychelles

Export-Import Bank of India (Exim Bank) and Seychelles Marketing Board (SMB), Seychelles, signed an Agreement in Mumbai, on November 25, 2002, for a Line of Credit (LOC) of US$ 5 million from Exim Bank to SMB, to support India's exports to Seychelles. The Agreement was signed by Mr. T. C. Venkat Subramanian, Managing Director and CEO of Exim Bank and Mrs. Lekha Nair, Director General, Ministry of Finance, Government of Seychelles.

Under the LOC, importers based in Seychelles will make advance payment of 10 % of contract value and credit will be provided by Exim Bank for 90% of contract value to SMB. Exim Bank will reimburse Indian exporters on shipment of goods. Credit period will be upto 5 years. Under this LOC, Seychelles is expected to import transport vehicles, among other items, from Indian companies.

SMB, established in 1984, is a statutory corporation wholly owned by the Government of Seychelles and has a turnover of US$ 110 million. The President of Seychelles is the Chairman of SMB.

India's exports to Seychelles amounted to US$ 5.68 mn during the year 2001-02. Potential areas that Indian exporters can focus on are agricultural products, textiles including garments, transport equipment, machinery, consumer durables and drugs and pharmaceuticals.

For further information, please contact
Mr. P. R. Dalal,
General Manager
Telephone: (022) 22185272
Extn. 2112, Fax: (022) 22182460;
E-mail: prdalal@eximbankindia.com

Exim Bank – CII National Conference on "Business Practices of Successful Indian Exporters"

With a view to promote wider dissemination of the findings of Exim Bank's study on *"Business Practices of Successful Indian Exporters"*, as also to facilitate transfer of successful business practices among Indian Exporters, Exim Bank, as the principal sponsor, along with Confederation of Indian Industry (CII), organised a National Conference on "Business Practices of Successful Indian Exporters" in November in New Delhi.

Delivering the theme address at the well-attended Conference, Mr. T.C. Venkat Subramanian, Managing Director and CEO, Exim Bank, who was the Chief Guest at the occasion, exhorted Indian exporters to evolve strategic business plans for sustained export performance in the post-WTO trading environment.

The Conference provided a platform for select successful Indian exporters to highlight the strategic business practices adopted by them, on the one hand, and an opportunity for other exporters to learn from the experience of such successful exporters. Accordingly, each technical session of the Conference focussed on a strategic business practice and consisted of presentation by select exporters, followed by detailed discussions on the subject.

Speakers at the National Conference included representatives from organisations such as Hindustan Levers Ltd., ITC Ltd., Sundaram Fasteners Ltd., Moser Baer Ltd., Rallis India Ltd., Bhartiya International Ltd., Bharat Forge Ltd, A.F. Ferguson & Co., Wipro 01 Markets, and Creatnet Services Ltd.

Success Story: Bhushan Steel & Strips Limited

Bhushan Steel & Strips Limited (BSSL), New Delhi, is the flagship company of the Rs. 2000 crore Bhushan Group promoted by Mr. B.B. Singal. Bhushan Group is a dominant player in the Indian steel industry with India's largest Cold Rolled (CR) Steel plant in the secondary sector with a line to manufacture Auto Grade CR coils and sheets upto a width of 1700 mm. BSSL, a public limited company engaged in manufacture of CR Steel Strips (CRSS) and Galvanised Plain and Corrugated Sheets, was promoted in 1983 as Jawahar Metal India Limited with facilities for 39,600 tpa of CRSS and 2160 tpa of Stainless Steel castings. In 1987, the Company was taken over by Brij Bhushan Singal and associates. BSSL has been undertaking expansion/modernization projects resulting in revamping of existing rolling mill, expansion in capacities, installation of balancing facilities, diversification of product range and implementing forward integration by setting up annealing cum galvanizing sheet line. The Company's manufacturing facility is located at Ghaziabad, Uttar Pradesh with capacity to manufacture 225,000 tpa CRSS, 225,000 tpa CR galvanised steel strips and 40,000 tpa billets. The Company's CRSS facility was aimed at substituting imports of CRSS in the country and to enable the company to cater to the auto market. Earlier, almost all car manufacturers used to import CRSS from Japan, Korea and Europe. BSSL is the market leader in the CRSS segment with a market share of around 80% and a close second to the Jindal Group in the Galvanised Steel segment. Driven by quality, BSSL has earned many laurels such as the ISO Certification besides being appointed Ford's Global Resource Centre. The Company's R&D Centre houses laboratory equipment conforming to the latest International Standards and the Company is the single largest supplier to all Automobile and White Goods manufacturers.

With the advent of foreign companies setting up bases in India, the demand for high quality and upgraded steel, adhering to international standards, increased. BSSL identified the massive potential for this niche market. In addition to shape control features and the high levels of computerization, BSSL invested in highly advanced equipments such as Hydrogen Based Bell Annealing Furnaces from Austria, Skin Pass Mill from France, a totally CNC Controlled Electrical Discharge Texturising & Roll Grinding Machine and Cut-to-Length from Germany and CR Slitter from Italy and Electrolytic Degreasing Line from Japan. The galvanized skin passed sheets and coils have excellent surface finish suitable for manufacturing products of aesthetic importance such as air conditioners, washing machines, refrigerators, visi coolers, computers, bus body and automobile components. BSSL's high density, fully automated 12 MW captive power plant from MAN B&W, Germany has further strengthened its competitive edge with an in-house source of highly cost effective and uninterrupted power. BSSL's clientele comprises leaders in sectors like white goods, automobiles, construction, power and heavy engineering and its enviable client list includes Maruti, TELCO, Bajaj, Voltas, Whirlpool, Kirloskar, Samsung, LG Electronics.

Over the last decade, BSSL has witnessed steady consistent growth in revenues. The Company's turnover has increased from Rs. 128 crores in 1993 to Rs. 1139 crores in 2002, registering CAGR of 27%. During this period of tumultuous change buffeting the business world, BSSL has emerged as one of the largest players in steel industry despite the recessionary trend in this industry, The Company has consistently maintained a positive bottom line and measured by the criteria of gross profit margins, the Company ranks among the most profitable and efficient steel companies in the country.

BSSL commenced export activities in 1996 after commissioning of state-of-the -art 6-Hi Hitachi CR mill and hydrogen annealing facilities and also achieved Export House status in the same year. However BSSL could not achieve its full export potential on account of capcity constraints. With Exim Bank's assistance for company's expansion cum modernisation project, BSSL has been able to register an impressive growth in exports from Rs. 41 crores in 1996 to Rs. 115 crores in 2002. BSSL's export destinations encompass more than 39 countries in Africa, Asia, and North & South America. Besides, manufacture of import substitute products has given BSSL an edge over competition.

Exim Bank has been tracking BSSL's growth path since its foray in export market and has been providing the Company with necessary and timely financial support for its expansion/ modernization projects enabling the company to successfully penetrate export markets.

In line with Company's strategy to constantly expand/upgrade its manufacturing facilities and widen its geographical base, BSSL has recently embarked on setting up a new project at Khopoli, Maharashtra with 250,000 tpa capacity for CR products which is being part financed by Exim Bank.

WTO & Export Financing

The World Trade Organisation (WTO) advocates the movement of goods and services across nations smoothly, predictably and freely. With a view to minimise the trade distortion effects of subsidies, the Subsidies and Countervailing Measures (SCM) agreement of the WTO aims to *discipline the use of subsidies (domestic as well as export subsidies), and regulate the actions countries can take to counter the effects of subsidies*.

Policy makers have considered subsidised export financing as protectionism in reverse. It protects the interest of domestic exporters leading to a loss in efficiency and trade distortion. Export Credit Agencies provide support that can take the form of direct credits/financing, refinancing, interest rate support, aid financing (credits and grants). These are referred to as official financing support. Also, export insurance and guarantees cover commercial as well as country risks to which the exporters are exposed. The Berne Union, the OECD Group on Export Credits and Credit Guarantees have worked towards regulating export credit subsidisation.

The WTO agreement on Subsidies and Countervailing Measures (SCM) aims to even out the differentials in interest rate and repayment terms of the official Export Credit Agencies (ECAs), which gives them undue commercial competitive advantage. Except as provided in the Agreement on Agriculture, the SCM agreement identifies three forms of subsidies, namely -

- *Prohibited* – subsidies which are specially designed to distort international trade; they are based either on export performance or upon the use of domestic over imported goods;
- *Actionable* – subsidies which adversely affect the interests of another country;
- *Non-actionable* – non-specific subsidies, or specific subsidies for industrial research and pre-competitive development activity, assistance to disadvantaged regions, or certain types of assistance for adapting existing facilities to new environmental laws or regulations.

Among others, the illustrative list of prohibited export subsidies includes:

- *The provisions by Governments (or institutions controlled by the Governments) of export credit guarantees or insurance programmes, at premium rates, which are inadequate to cover the long-term operating costs and losses of the programmes*. However, there is ambiguity over the concept of long-term operating costs.
- *The grant by Governments of export credits at rates below those which they actually have to pay for the funds so employed, or the payment by them of all or part of the costs incurred by exporters or financial institutions in obtaining credits, in so far as they are used to secure a material advantage in the field of export credit terms*. However, if an ECA complies with the OECD Arrangement interest rate guidelines, its export credit practice shall not be considered as prohibited export subsidy. Referring to a particular dispute on sales of aircraft, Canada complained to the WTO that under PROEX (Export Financing Programme, where interest rate equalisation subsidies amount to 3.8 percentage points of the actual interest rate) Brazil subsidises export credit. PROEX payments were found inconsistent with the SCM Agreement and the WTO panel recommended Brazil, to withdraw the subsidies. However, subsequent to Brazil's complaint, WTO has found Canada's practice to match Brazil's revised PROEX scheme as unfair and not complying with WTO rules.

Implications for India

The WTO recognises the importance of subsidies in the economic development of developing country members. According to the Special and Differential Treatment for Developing Country Members, the prohibition of subsidies as identified in the SCM Agreement, shall not apply to the least-developing countries designated by the United Nations which are members of the WTO and other developing country members whose GNP per capita is less than US$ 1000 per annum. India's GNP per head needs to be more than doubled to be treated as an exception to this special treatment. Following WTO's Trade Policy Review of India (1998 and 2002), India does not provide direct subsidies to exporters. Indian exporters benefit from concessions on imported inputs and exemption from income taxes, which do not come under the purview of direct subsidies. Also, it has been identified that commercial banks do not receive any subsidy from the Government to finance export loans and ECGC's short term insurance services and credit guarantee business are viable.

The WTO, however, states that if India's exports of a particular product reaches a share of 3.25% in world exports of that product for two consecutive years, then recognising India's export competitiveness in such a product, export subsidies shall be gradually phased out over a period of eight years. It is noteworthy that, a product has been defined as a section heading of the Harmonised System (HS) Nomenclature.

Agricultural Policies in OECD Countries

Export credit schemes are government backed financing arrangements, which facilitate the export of commodities. Government supported export credits are seen as a way of circumventing export subsidy commitments of the World Trade Organisation (WTO) negotiations because interest rates and repayment terms are easier than under normal commercial conditions. Export credits are being applied to growing proportion of agricultural trade and the market distorting potential of export credits, is being realised and is becoming more important. The rise in the use of export credits relative to export subsidies suggests that some countries are already shifting support for their agricultural exports from explicit export subsidies to measures like export credits.

Support to agricultural producers in OECD countries decreased in 2001 for the second consecutive year, but remains above the lowest level, reached in 1997. There has been some movement towards greater market orientation, lower support and protection since the mid-80s, but wide differences remain across countries and commodities. Despite some shift away from market price support and output payments, these remain as the dominant forms of support in most countries, impeding the transmission of world market signals to producers and distorting production and trade.

There were no major changes in the main policy instruments used by OECD countries in 2001, and Total Support to Agriculture (TSE) amounted to US$ 311 bn, accounting for 1.3% of GDP, compared with US$ 321 bn in 2000. The percentage varied from 0.3% in Australia and New Zealand to over 4% in Korea and Turkey. Support to Producers (PSE) decreased in most countries due to an increase in the world prices, causing a fall in the price support. For the OECD as a whole, the PSE decreased to 31% in 2001 from an average of 38% in 1986-88.

Support levels in 2001 remained lowest in New Zealand (1% PSE) and Australia (4% PSE), and highest in Iceland, Japan, Korea, Norway and Switzerland (around or over 60% PSE). Among the high support countries, there has been a shift away from the most distorting forms of support in Iceland, Norway and Switzerland since the mid-80s. The PSE in the European Union accession countries - Czech Republic, Hungary, Poland, Slovak Republic and Turkey, fell to under 20%, compared with 35% in the European Union. The PSE for Mexico, Canada and the United States is around or less than 20%.

While support decreased for most commodities relative to the 1986-88 averages, support across commodities varies widely. The PSE in 2001 was greater than 80% for rice, 55% for sheepmeat, 45% for sugar and milk, 36% for wheat and beef, between 15% and 30% for poultry, pigmeat, oilseeds and maize, and less than 10% for eggs and wool. Virtually all support to sugar, milk and rice is market price support, which is potentially the most production and trade distorting policy measure.

Overall, the level of support and protection to agriculture has decreased since the mid-80s and there has been some shift towards less distorting policy measures. But given the slow and variable pace of implementation of the agricultural policy reform agreed by OECD countries, greater efforts are still needed. The challenge is to further reduce support, ensure well functioning markets, implement better-targeted measures that are less production and trade distorting, and effectively address both domestic and international goals.

US Farm Bill - 2002

United States is world's largest agricultural exporter. Because of its size, both as a market and as an exporter, its agricultural policies greatly influence world trade and prices. The US is on the verge of enacting comprehensive new legislation that will greatly affect agricultural trade and prices internationally. Such legislation is enacted every few years, the last farm bill having been passed in 1996. The 2002 farm bill will include many provisions covering subsidies and protection to US farmers, trade measures, and conservation and environmental programs. US government support for a subset of agricultural commodities, that constitute less than a third of US agriculture – grains, rice, cotton, sugar and milk – has risen in recent years to high levels that are comparable to those in the European Union. In the process of developing a new farm bill, both the houses of the US Congress are seeking to perpetuate much increased support that was provided through emergency packages since 1998. Most US support has been going to the wealthiest farmers and the least to the poorest, and the main reason why such high support continues to exist is that it has been entrenched for many decades, and production structures and wealth for farmers producing the supported items have become dependent on continuation of the support.

Infosys gets CII-Exim Bank Award for Business Excellence

Software major Infosys Technologies Ltd. has been chosen for the CII-Exim Bank award for Business Excellence for 2002. This was announced by Mr. N. Srinivasan, Deputy Director General, CII at the 10th Quality Summit at Bangalore in November 2002. The software major was selected for its value-based leadership, exemplary corporate governance, commendable wealth creation and delivery of world-class products and services.

Exim Bank has been promoting the quality concept to help ensure that Indian products and services increasingly meet international acceptance worldwide. The Bank has instituted an award for Business Excellence in association with CII since 1995, and also part finances the expenditure involved in maintaining the award.

The CII-Exim Award for Business Excellence, which is based on the European Foundation for Quality Management model, has now established itself as a prestigious award for quality in India. The award is based on a comprehensive model focusing on the organisation's practices and performance under different criteria. Over the years, the award has helped in promoting the awareness and application of the Business Excellence model in Indian industry. Out of eight years that the award has been in place, there have been winners only on three occasions viz. Hewlett Packard India Limited in 1997, Maruti Udyog Limited in 1998 and Tata Steel in 2000.

Enhancing presence in South Africa through partnering with IDC

A Memorandum of Understanding (MOU) was signed between Export-Import Bank of India (Exim Bank) and The Industrial Development Corporation of South Africa Limited (IDC), to facilitate and enhance bilateral trade and investment relations between India and South Africa.

Under the MOU, the institutions have agreed to:

- Locating suitable joint venture/trade partners in order to promote the realisation of business opportunities, including credit enhancement for turnkey projects.
- Co-financing projects set up by Indian companies.
- Providing business leads in advance i.e. before the projects are formulated in full.
- Co-operate in promotional activities, including exchange of information on trade, business and investment opportunities, organising seminars/ workshops and exchange of faculty.

Exim Bank, with its overseas offices and institutional linkages with multilateral institutions, export credit agencies, foreign banks, and trade and investment promotion agencies in more than 28 countries, has in place a global network for promotion of India's international trade and investment. The Bank offers a comprehensive range of finance and services at various stages of the business cycle. IDC aspires to be the primary driving force of commercially sustainable industrial development and innovation for the benefit of South Africa as well as the rest of the African Continent. IDC offers a wide range of financing products focused on development, growth and globalisation of the South African manufacturing industry, establishment of internationally competitive large resource-based beneficiation projects and attracting foreign investment.

The MOU will facilitate and promote two-way trade and investment between India and South Africa.

Exim Bank signs Co-operation Pact with the Board of Investment of Mauritius

A co-operation pact was signed between Export-Import Bank of India (Exim Bank) and the Board of Investment of Mauritius (BOI), to facilitate and enhance bilateral investment and trade relations between India and Mauritius. Mr. T. C. Venkat Subramanian, Managing Director, Exim Bank and Dr. Prem Nababsing, Chairman, Board of Investment of Mauritius, were signatories to the arrangement.

Under the arrangement, the institutions have agreed to:

- Facilitate joint venture/trade partners in order to promote the realisation of business opportunities.
- Co-operate in promotional activities, including exchange of information on trade, business and investment opportunities, organising seminars/ workshops and exchange of faculty.

Board of Investment of Mauritius has been set up with a view to streamlining the legal framework and to make better provisions for the promotion and facilitation of investment in Mauritius. The signing of the co-operation pact will further and promote two-way investment and trade between India and Mauritius.

Exim Bank wins World Trade Centre Award for Trade Development

The US based World Trade Centres Association (WTCA) has awarded the 'Book of Honor Award,' to Export-Import Bank of India, in recognition of its contribution to world stability through trade. The Award was received by the Managing Director of Exim Bank, Mr. T.C. Venkat Subramanian, from a team of high-ranking officials of World Trade Centre, Mumbai. WTCA has a membership covering 90 countries and almost 300 World Trade Centres.

Exim Bank Study on "Health Insurance Portability and Accountability Act (USA) - HIPAA: An Opportunity for Indian IT Companies"

Exim Bank's study observes that HIPAA is a sweeping legislation in USA that is likely to revolutionize the health care industry by way of streamlining the operations. The Act will have a major, ongoing impact on health care business in several areas such as availability of significant resources, retooling of IT, operational and procedural changes. The study further observes that the national health care spending in USA has been increasing at a rate of over 6 percent and it is projected to reach 16.6 percent share in USA's GDP by the year 2007.

The study delineates that there exists an outsourcing potential for software service and solutions providers. HIPAA, unlike Y2K, is an enterprise wide solution, wherein one has to understand regulations from legal, security, business process and technological perspectives to arrive at an optimum solution. The study concludes that Indian IT firms without domain expertise in all these areas may try to align with frontline HIPAA solution providers to get the domain knowledge by undertaking some backend work. On the technology front, the study states that the electronic highway will dramatically alter the world of healthcare in the coming years. This will provide growth potential for Indian IT companies.

For details, contact : Prahalathan Iyer, Planning & Research, Tel.: 22160364; Fax: 22180743 email: prahalathan@eximbankindia.com

Exim Bank's Study highlights Potential for Exports of Horticulture Products From Bihar and Jharkhand

Exim Bank's forthcoming Occasional Paper **"Potential for Export of Horticulture Products from Bihar and Jharkhand"** assessing growth potential of horticulture products in India and its competitive position vis-à-vis competitors in the global market, identifies constraints and challenges affecting its growth, with special focus on Bihar and Jharkhand.

With high volume of production of vegetables and fruits in Bihar and Jharkhand, as also relatively high productivity, the study points out that Bihar has potential for export of lychee, mango and guava, while Jharkhand has potential in vegetables. Further, niche products, which can be exported, are fox nuts (makhana) and honey.

With Bihar and Jharkhand having announced the setting up of an Agro-Export Zone (AEZ) in each state with focus on fruits and vegetables respectively, the study delineates that the success of these zones would depend on the ability of both states to overcome existing shortcomings in infrastructure, institutional mechanism and policy and programme support to achieve desired export orientation.

In the case of the AEZ in Bihar, the study recommends, among others, that the area coverage could be expanded to include Patna considering the importance of developing necessary handling and air transit facilities. For the AEZ in Jharkhand, the zone could gradually reorient itself to organically grown vegetables for markets in developed countries.

For details, contact : David Sinate, Planning & Research, Tel.: 22162068; Fax: 22180743 email: sinate@eximbankindia.com

Exim Bank Study on "Indian Cement Industry : Perspective and Export Potential"

Exim Bank's Working Paper on **"Cement Industry: Perspective and Export Potential"** has analysed the competitiveness of the Indian cement industry in major markets, and found that Indian cement is competitive in markets like Bangladesh and Kuwait, but not in other major import markets like Singapore, Sri Lanka, Malaysia and Philippines.

The study observed that technological advancement would reduce the cost of production, improve quality and make Indian cement price competitive in international markets. The study also outlined the Government's role in helping the industry to reduce the production cost, by way of reduction in royalty and cess on limestone and coal, meant for export production. Government of India may also create enabling conditions for market penetration, by way of rationalising tariff differentials and negotiating for zero tariff dispensation of cement and clinker exports, especially with neighbouring countries like Bangladesh and Sri Lanka.

The study noted that major importing countries have sourced their requirements mainly from neighbouring countries in their region. Thailand and China are the two exceptions to this general trend. The study found that Singapore, Bangladesh, Kuwait, Sri Lanka, Malaysia and Philippines offer significant potential for export of Indian cement, provided the production cost is brought down substantially.

For details, contact : Prahalathan Iyer, Planning & Research, Tel.: 22160364; Fax: 22180743 email: prahalathan@eximbankindia.com

EXIMIUS CENTRE COLUMN

In the Fourth quarter of 2002, The Centre organised the following programmes:

The first programme was a workshop on *'Commercial and Legal Aspects of International Contracting in IT'* conducted by Exim Bank in association with Centre for Promotion of Imports from Developing Countries (CBI), Netherlands in Bangalore. The workshop was inaugurated by Dr. Bob Hoekstra, CEO, Philips Software Centre Pvt Ltd, Bangalore and addressed by Mr. Hans Verhulst, Consultant for CBI and Mr. Frits Mutsaerts, Attorney at law, representing CBI.

A similar workshop on *'Commercial and Legal Aspects of International Contracting in Industry'* was conducted by Exim Bank in association with CBI at Mumbai. Mr. T. C. Venkat Subramanian, Managing Director, Exim Bank, dwelt upon the role of Exim Bank in supporting SMEs to market their products and services in the demanding and discerning markets like Europe. Mr. Maarten D Reuchlin, Consul General, Consulate of The Netherlands, Mumbai inaugurated the Workshop. Introductory Remarks were given by Ms. Eva Broekhuis, Programme Manager, CBI. The Workshop was addressed by Mr. Hans Verhulst, Consultant for CBI and Mr. Frits Mutsaerts, Attorney at law, representing CBI.

The third programme was a seminar on *'Flanders-Belgium: A Gateway for Doing Business with Europe'* which was held at Hyderabad. The seminar was conducted by Exim Bank in association with the Trade Commission, Flanders, Belgium. The seminar was addressed by Mr. Ben De Smit, Director-Asia Pacific, Foreign Investment Promotion Office for Flanders Region and Mr. Jayant Nadiger, Trade Commissioner-South India, Flanders Region. A presentation on 'Managing Relationship and Business Risks' was made by Mr. Dinesh Singh, Strategic Account Planner, Dun & Bradstreet Information India Pvt Ltd, Hyderabad.

The fourth programme - a seminar on *'Export Packaging - Machine Tools, Textile Garments, Agri and Food Products'* - was held in association with The Coimbatore District Small Industries Association (CODISSIA) at Coimbatore. The seminar was inaugurated by Mr. V. Ranganathan, Past President, CODISSIA and a presentation was made by Exim Bank, with a focus on Export Marketing Finance. The seminar was addressed by Dr. H. B. N. Murthy, Senior Packaging Consultant, and Mr. Gautam Bhattacharyya, from the Indian Institute of Packaging, Bangalore.

The Calendar of programmes for the next quarter include seminars on:

- Capability Maturity Model Integration (CMMI)
- Financial Risk Management in Agri-Business
- Tax Strategies for Setting up an Overseas Entity
- International Business Practices, Customs and Etiquette and
- US-FDA Regulations on the Pharmaceutical Industry.

The Centre welcomes suggestions on its future agenda.

For details on future programmes at Eximius Centre, contact: Ms.R. Roopa in Bangalore on Tel: (080)5589106, Fax: 5550893 E-mail: eximius@giasbg01.vsnl.net.in

BOOK REVIEW

Prospects for Agricultural Markets 2001 – 2008

European Commission – Directorate General of Agriculture

The Directorate General for Agriculture of the European Commission has highlighted in this report an overview of market trends and medium term projections of supply and demand for the main agricultural commodities. The report provides a medium-term perspective of the likely developments of agricultural markets up to 2008 in the EU, the candidate countries from Central and Eastern Europe, and world markets, based on a number of assumptions and on the statistical information available in May 2001. The report covers trends and prospects in the meat, cereals and dairy sectors on EU markets, East and Central European markets and the world market. While overall price and demand trends look good, three major areas of concern were identified in the report: economic prospects; the scope for production growth; the policy and trade environment.

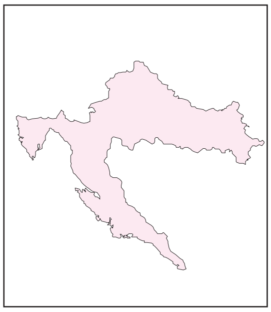
The first section centres on the market prospects by the year 2008 within the EU and covers the following products: cereals, oilseeds, meat, milk and the main dairy products, while the second section provides a description of the likely prospects of agricultural markets in the ten Central and Eastern European Countries, which are candidates for accession to the EU. The report ends with a presentation of the medium and long-term prospects of agricultural world markets, established by different international organisations and institutes.

Brazil

The Brazilian economy grew by 1.5% in 2001 as compared to 4.4% in the previous year, primarily due to a fall in industrial output. In absolute terms, GDP was US$ 502.5 bn in 2001 while GDP per head was US$ 2879.6 during the same year. Consumer price inflation decreased marginally from 7.0% in 2000 to 6.8% in 2001, owing to a muted domestic demand. The services sector dominated the economy, accounting for 56.8% of GDP in 2001. GDP growth in 2002 is expected to be the same as it was in 2001, i.e. 1.5%. However, the improvement in the global economy, especially the US economy, will enable GDP growth to approach 4.5%. Strong appreciation of the Real, lower oil prices, high real interest rates and muted domestic demand are expected to result in a moderate inflation of around 5.5% in 2002.

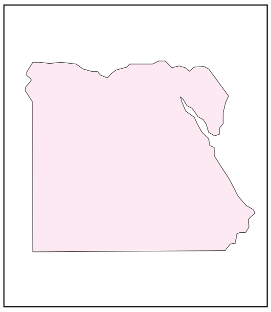
Croatia

Real GDP growth improved to 4.1% in 2001 compared to that of 3.7% in 2000. Growth was fuelled by investment, which was strong in construction, trade, financial and business services. GDP growth remained strong in the first quarter of 2002. In absolute terms, GDP at current prices was US$ 20.3 billion in 2001 and GDP per capita was US$ 4614. Retail price inflation averaged 5.2% in 2001, decreasing from that of 6.5% recorded in the previous year. A cautious monetary policy, reduction in import duties and retail price competition pulled the prices down. Real GDP is expected to grow by 2.8% in 2002 and improve to 3.6% in 2003. Croatia is implementing 20 projects for which the IBRD has approved loans worth US$ 580 million and EUR 360 million. Another five projects, close to US$ 400 million, were being prepared.



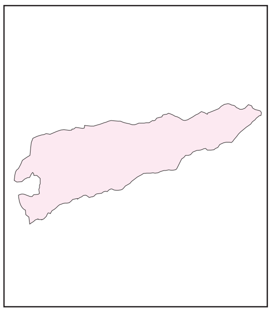
Egypt

The real GDP is estimated to have grown by 2.5% in 2001 compared to that of 3.2% in 2000. The growth was constrained by continuing high interest rates and the higher cost of imported inputs, resulting from a steep devaluation of the currency in 2001. Real GDP growth is expected to rise to 2.1% in 2002-03 from an estimated 0.8% in fiscal 2002. Egypt recorded a current account surplus of US$ 194 million in the first quarter of calendar 2002. The surplus occurred partly because of a recovery is tourism receipts and mostly due to the huge fall in imports, which fell on lower domestic demand, a scarcity of dollars and the decline of the Egyptian pound. Egypt signed a MOU with the European Commission in May 2002, under which Egypt will receive US$ 38.8 million over two years against progress in customs performance and trade policy.



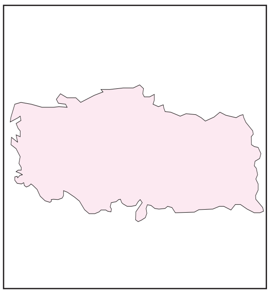
East Timor

Economic growth continued at a rapid pace in 2001. GDP growth is estimated to be at 18% in 2001 compared to a 15% growth in 2000. Agriculture is the main source of income. The reconstruction program, the large oil project and the large international presence led to a high level of imports and a large current account deficit in 2001 which was estimated to be US$ 470 mn and is expected to rise to US$ 662 mn in 2002. The annual inflation rate is estimated to be 3% in 2001, compared to 20% in 2000 and 140% in 1999. The gradual reduction of international support is expected to see a decline in GDP growth to zero and 2% in 2002 and 2003 respectively. Asian Development Bank (AsDB) is managing projects worth US$ 52.8 mn. Since 2000, AsDB has committed US$ 8 mn in technical assistance grants. The World Bank approved Transitional Support Program, which provides a US$ 5 mn grant and a multi-donor package upto US$ 31 mn for the year 2003.



Turkey

The real GDP growth will be weak in 2002 at 3.3% due to the volatility of the lira and high interest rates which prevented an improvement in the public finances but is expected to strengthen in 2003.Exports are expected to increase to US$ 38.4 bn in 2002 from US$ 35.3 bn in 2001 as the world economy recovers. The services sector is the largest sector contributing 59.5% of the total GDP in 2001. The IMF approved the release of US$ 1.15 bn in June and commended its strong performance. US$ 2 bn is earmarked for 2003 and 2004. The World Bank continues to lend substantially to Turkey. Agreement on a second programmatic Financial and Public sector Adjustment Loan was signed in April, which involves US$ 1.35 bn to be released in three tranches. The International Finance Corporation has invested about US$ 350 mn in Turkish private sector companies.



Select Currencies

KUWAIT

The State of Kuwait is following weighted currency basket approach towards its exchange rate policy since March 18, 1975. The basket of currencies against which the Kuwaiti Dinar (KWD) is pegged depends on the countries that have influential trade and financial relations with Kuwait. Under this arrangement, the exchange rate fluctuates within a narrow margin of less than +/- 1 % around the central rate. Kuwait is an open economy where there is no restriction on movement of funds and therefore, a sound exchange rate policy stance was taken by the Central Bank of Kuwait, which has been reflected, in the stable KWD over period of last 27 years. During last five years, average KWD had depreciated by 0.50% p.a. against US Dollar from 0.298 in 1995 to 0.307 in 2001. In continuation of the decision taken by the Higher Council of Gulf Cooperation Council (GCC) Heads of State at Muscat in December 2001 to use US Dollar as anchor currency for all GCC countries by not later than the end of 2002, the Kuwaiti government announced on October 15, 2002, the change in exchange rate policy and said that the KWD will be pegged to US Dollar beginning January 1, 2003. This is the first step towards preparation for a monetary union and the launch of single currency for GCC countries by 2010. As on December 31, 2002 KWD has been quoted at 0.2995 per US Dollar and is expected to be stable in the near future.

RUSSIA

The official exchange rates of foreign currencies against the Russian rouble (RUB) are set by the Central Bank of the Russian Federation viz. Bank of Russia, and are applicable till the next official rate of the currency takes effect. The forex rates are set on the basis of the Moscow Inter-bank Currency Exchange rate. The RUB started to depreciate as the Soviet Union began to collapse, and by mid-1992, it stood at 100 to the US Dollar. By the end of 1992, it was 450 per US Dollar, and it depreciated further to 1,100 per US Dollar in June1993. It touched 4,560 per US Dollar in 1995. The Rouble corridor' introduced by the central bank in 1995 holding the exchange rate in a band could not sustain and therefore the band had been revised many times and hence the decline became a managed decline. The Rouble was re-denominated on January 1, 1998 at 1 New Rouble = 1,000 Old Roubles. The RUR has depreciated against US Dollar from 20.65 in 1998 to 30.47 in 2001 indicating about 48% decline over a period of 4 years. During the first 11 months of 2002, the RUB ranged between 30.69 in January and 31.84 in November, a decline of 3.75%. The Russia's international reserves stood at US$ 47.80 bn as of December 13, 2002 as against US$ 8.46 bn. in December 1999 which reflects increasing strengthening of Russian economy in the last 3 years. As of December 31, 2002 the RUB was quoted at 31.95 per US Dollar and is expected to be stable in the near future.

CHINA

The currency of China, Yuan (CNY) also known as Rinminbi has been pegged to US Dollar from January 1, 1994. The central bank, Peoples' Bank of China, generally enforces the band and quotes mid point rate against the US Dollar based on the inter-bank rates prevailing in the foreign exchange market. Before 1994, the exchange rate of CNY was adjusted according to movements in the value of the basket of currencies. CNY was fixed at 1.49 per US Dollar in 1979 by the central bank. As this rate was overvalued and did not favour exporters, dual exchange rate system was introduced in 1980 whereby Foreign Trade corporations could buy and sell at CNY 2.80 per US Dollar and all others at higher official rate. The official rate was devalued in stages to CNY 5.70 by 1993 and pegged at 8.70 against US Dollar on January 1, 1994 to lay ground work for export oriented economy. The CNY has been stable since 1995. It appreciated from 8.44 in January 1995 to 8.2650 in July 2000 and remained at this level since then against US Dollar. CNY fluctuates within a band of 8.2760 to 8.2800 against US Dollar reflecting +/-0.30% variation from the central rate. The foreign exchange reserves (including gold) totalled US$ 53.6 bn at the end of 1994, US$ 77.05 bn in 1995 and had increased to US$ 218.2 bn by the end of 2001. The strengthening of balance of payment is due to improved export competitiveness and a further rise in China's prominence as an investment destination following its WTO related liberalisation. China's exports rose 21.6 percent year on year to US$ 293.69 bn in the first 11 months of 2002, helping create a trade surplus of US$ 27.2 bn, up 33 percent. Healthy foreign exchange reserves of US$ 274.6 bn at the end of November 2002 would help in keeping the CNY near the strong end of its usual band. The CNY which is convertible only on current account, would remain solid because China's exports were expected to remain strong during the current year. As on December 31, 2002 the CNY was quoted at 8.2770 per US Dollar.

Implications of China's WTO Membership on India

With over US$ 510 bn in foreign trade and almost US$ 47 bn in FDI in 2001, China is an economic power, which needs to be reckoned with. Today, the vast Chinese market is characterized by openness, which has been the result of more than twenty years of economic reforms. And now, its economic integration into the world economy has been further hastened by its membership of the WTO. For India and Indian Industry, the opening up of China presents immense opportunities as well as challenges. The opportunities exist in the vast market that China offers and the potential to join hands for accessing third country markets.

China's accession to the WTO was not only a cause of cheer but also concern to India, because it would open up the Chinese market to Indian exports that were then constrained by the limits of bilateral agreement. After the WTO accession, FDI's to China were expected to increase to the detriment of other developing nations including India. The phasing out of the Multi Fibre Arrangement (MFA) by 2005 would bring an end to reserved quotas for developing countries and exports of certain commodities like garments and textiles to the developed world would be captured by China, which is in important item of export for India. It was anticipated that Chinese imports of agricultural products as well as imports of cotton and cotton yarn would rise and thus there would be ample scope for India to increase its exports in this sector. Exporters from India had experienced non-tariff barriers, which would lessen after the WTO accession.

In recent years, Indo-China bilateral cooperation has been increasing steadily. Two-way trade has maintained a double-digit growth rate for years exceeding US$ 3 bn in 2001-02. There has been a flood of cheap imports into India from China like tyres, bicycles, toys, plastics, dyes and bulk drugs and with the WTO accession the inflow of cheap imports were expected to aggravate. But the results were less than expected. After China joined WTO in December 2001, Indian exports to China during January to August 2002 has registered a growth of 33.3%, while imports have increased by 39% during the same period, compared to the corresponding period in 2001. China has signed up for WTO with some tough market access clauses in the agreement, and without the coveted 'developing country' tag that would have entitled it to concessions. Commitments include significant reductions in tariffs that will bring the average level to under 10% by 2005; the tariff rate for key agricultural commodities, such as wheat, will be down to almost zero for a significant volume of imports; gradual elimination of all quotas and licenses that have restricted the flow of some imports; and opening up of critical services sectors.

Indian imports from China are far more than the exports and hence with the opening up of the Chinese economy there was an obvious concern, about the surge of imports from China in the Indian market. But even if India were to gain a miniscule share of the additional exports to China that result from WTO accession, that would be a huge opportunity for India in sectors such as agriculture. Indian companies are already catering to China's prodigious appetite for steel. On the other hand companies based in India are using components made in China to lower their own cost of production. Indian companies like Dr. Reddy's, Ranbaxy, Essel Propack, Bajaj Electricals, NIIT and some other software companies are setting up bases in China, not just to tap their domestic market, but also to make it a base for exports to other regions.

But low-cost imports from China still constitute the greatest threat though without much results in the past eleven months. So far, India has been imposing anti-dumping duties, but they are temporary measures. Indian companies must try to make their products more competitive with lower power costs, lower transport costs, more efficient ports and better labor laws. Though the garments and textile sector was expected to be affected, Indian exports of textiles and garments have shown a robust growth since China's WTO accession. Thus though Indian imports from China poses a challenge to the Indian economy, India is also exploiting the potential that has been created with China's WTO accession.

Note: Indian Rupees are referred in crore and lakhs:
1 crore : 10 million
1 lakh : 100 thousand

Export-Import Bank of India, Centre One Building, Floor 21, World Trade Centre Complex, Cuffe Parade, Mumbai 400 005.
Tel: 2218 5272 Fax: 2218 2572
E-Mail: eximcord@vsnl.com

Contact Numbers: Ahmedabad: 657 6852, Bangalore: 558 5755, Chennai: 522 4714, Hyderabad : 2330 7816, Kolkata: 2229 3416, Mumbai: 2283 0761, New Delhi: 2332 6375, Pune: 645 8599
Budapest: (361) 338 2833, Johannesburg: (2711) 442 8010, Milan: (3902) 584 30546, Singapore: (65) 653 26464, Washington D.C.: (202) 223-3238